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FIRST SHANGHAI GROUP

FIRST SHANGHAI INVESTMENTS LIMITED

2001

Interim Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Managing Director

Mr Lao Yuan Yi

Independent Non-executive Directors

Prof. Woo Chia Wei

Mr Kwok Lam Kwong, Larry

Directors

Mr Xin Shulin, Steve

Mr Yeung Wai Kin

Mr Hu Yi Ming

Mr Xu Wei Ming

Mr Jiang Guo Fang

Mr Lu Wen Qing

COMPANY SECRETARY

Mr Yeung Wai Kin

REGISTERED OFFICE

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AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

SOLICITORS

Richards Butler

Victor Chu & Co.

T. H. Koo & Associates

PRINCIPAL BANKERS

Citic Ka Wah Bank Limited

Standard Chartered Bank

BNP Paribas Hong Kong Branch

REGISTRARS & TRANSFER OFFICE

Central Registration Hong Kong Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (the “Group”) for the six months ended 30th June 2001 together with comparative figures for the corresponding period last year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	Unaudited	
		Six months ended 30th June	
		2001	2000
		HK\$'000	HK\$'000
Turnover	2	183,068	154,455
Cost of sales		(150,795)	(126,110)
Gross profit		32,273	28,345
Distribution costs		(19)	(1,329)
Administrative expenses		(34,390)	(24,873)
Other operating income		21,144	4,439
Other revenue		4,796	7,651
Operating profit	2 & 3	23,804	14,233
Finance costs		(111)	(195)
Share of profits less losses of			
Associated companies		11,164	10,828
Jointly controlled entities		18,898	12,285
Profit before taxation		53,755	37,151
Taxation	4	(7,147)	(6,630)
Profit after taxation		46,608	30,521
Minority interests		(1,228)	(1,641)
Profit attributable to shareholders		45,380	28,880
Transfer to capital redemption reserve	10	(216)	(86)
Profit retained for the period		45,164	28,794
Basic earnings per share	5	4.1 cents	2.6 cents
Fully diluted earnings per share	5	4.0 cents	2.5 cents



CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2001	Restated 31st December 2000 (Note 1) HK\$'000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	6	156,747	160,203
Investments in associated companies		273,175	273,199
Investments in jointly controlled entities		272,942	276,556
Investment securities		83,625	79,923
Loans and advances		10,000	—
Current assets			
Inventories		1,237	1,158
Other investments		34,193	24,931
Loans and advances		—	16,452
Accounts receivable and prepayments	7	81,899	61,758
Tax recoverable		54	38
Pledged bank deposits		13,000	13,000
Bank balances and cash		267,224	204,952
		<u>397,607</u>	<u>322,289</u>
Current liabilities			
Accounts payable and accruals	8	55,865	65,421
Taxation payable		3,893	3,016
Short-term bank loans and overdrafts			
— secured		10,063	—
— unsecured		2,795	2,795
		<u>72,616</u>	<u>71,232</u>
Net current assets		324,991	251,057
Total assets less current liabilities		<u>1,121,480</u>	<u>1,040,938</u>
Financed by:			
Share capital	9	227,521	222,756
Reserves	10	701,620	651,970
Retained profits	11	148,917	120,444
Shareholders' funds		<u>1,078,058</u>	<u>995,170</u>
Minority interests		43,422	45,768
		<u>1,121,480</u>	<u>1,040,938</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30th June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	<u>(34,787)</u>	<u>12,684</u>
Net cash (outflow)/inflow from returns on investments and servicing of finance	<u>(1,242)</u>	<u>31,353</u>
Total taxation paid	<u>(376)</u>	<u>(235)</u>
Net cash inflow/(outflow) from investing activities	<u>77,340</u>	<u>(18,751)</u>
Net cash inflow from financing	<u>14,387</u>	<u>26,425</u>
Increase in cash and cash equivalents	55,322	51,476
Cash and cash equivalents at 1st January	204,952	239,333
Effect of foreign exchange rate changes	<u>(3,113)</u>	<u>(2,762)</u>
Cash and cash equivalents at 30th June	<u>257,161</u>	<u>288,047</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	280,224	301,047
Bank overdrafts	(10,063)	—
Less: Pledge of bank deposits	<u>(13,000)</u>	<u>(13,000)</u>
	<u>257,161</u>	<u>288,047</u>



**CONDENSED CONSOLIDATED STATEMENT OF
RECOGNISED GAINS AND LOSSES**

		Unaudited	
		Six months ended 30th June	
		2001	2000
	<i>Note</i>	HK\$	HK\$
Share of post-acquisition reserves of associated companies and jointly controlled entities	<i>10</i>	(2,789)	(1,577)
Exchange differences arising on translation of subsidiaries	<i>10</i>	<u>(2,437)</u>	<u>(2,148)</u>
Net losses not recognized in the profit and loss account		(5,226)	(3,725)
Profit attributable to shareholders		<u>45,380</u>	<u>28,880</u>
Total recognised gains and losses		<u>40,154</u>	<u>25,155</u>



NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation

These unaudited consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim financial reporting”, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following the adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised) :	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26 :	Segment reporting

The major changes to the Group’s accounting policies and the major effects of adopting these new policies are set out below:

(a) *SSAP 9 (revised): Events after the balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the proposed final dividend amounting to HK\$16,709,000 previously recorded as a current liability as at 31st December 2000 has been restated and shown under shareholders’ funds.

Changes to headings used in the previously reported 31st December 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) *SSAP 14 (revised): Leases*

In note 13(b) to these condensed interim accounts, the Group has disclosed its total future aggregate minimum lease payments under non-cancelable operating leases in accordance with revised SSAP 14. In the annual report for the year ended 31st December 2000, the Group had disclosed the commitments to make payments in the next twelve months under operating leases. Comparative figures have also been restated.

(c) *SSAP 26: Segment reporting*

In note 2 to these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Comparative information has been given.



2. Principal activities and geographical analysis of operations

An analysis of the Group's turnover and contribution to operating profit for the period by principal activities and geographical locations is as follows:

	Turnover Unaudited Six months ended 30th June		Contribution to operating profit Unaudited Six months ended 30th June	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Principal activities:				
Securities trading and investment	140,005	112,611	11,206	7,946
Container transportation and storage services	23,887	24,542	3,175	3,056
Corporate finance and stockbroking	18,089	16,649	3,773	7,392
Investment holding, property holding, management and IT services	1,087	653	854	(11,812)
	<u>183,068</u>	<u>154,455</u>	<u>19,008</u>	<u>6,582</u>
Other revenue			<u>4,796</u>	<u>7,651</u>
Operating profit			<u>23,804</u>	<u>14,233</u>
Geographical locations:				
Hong Kong	158,731	129,320	6,986	3,481
Chinese Mainland	24,239	24,959	11,624	2,923
Others	98	176	398	178
	<u>183,068</u>	<u>154,455</u>	<u>19,008</u>	<u>6,582</u>
Other revenue			<u>4,796</u>	<u>7,651</u>
Operating profit			<u>23,804</u>	<u>14,233</u>



4. Taxation

Hong Kong profits tax has been provided for at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30th June	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current	1,171	2,390
Overprovision in prior years	(3)	—
Overseas taxation		
Current	69	121
Overprovision in prior years	—	(116)
Share of taxation attributable to:		
Associated companies	1,224	1,410
Jointly controlled entities	4,686	2,825
	7,147	6,630

5. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$45,380,000 (2000: HK\$28,880,000) and the weighted average number of 1,114,612,677 ordinary shares (2000: 1,124,183,281 shares) in issue during the period. The diluted earnings per share is based on 1,131,139,292 (2000: 1,170,178,467) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 16,526,615 (2000: 45,995,186) ordinary shares deemed to be issued at no consideration if all outstanding share options and warrants (except for those with exercise prices higher than the fair value per share of the Company during the period which have no dilutive effect) were exercised.



6. Fixed assets

	Unaudited	Audited
	30th June	31st December
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening net book value	160,203	159,853
Additions	8,475	13,041
Disposals	(276)	(2,143)
Purchase of a subsidiary	—	77
Disposal of subsidiaries	(6,096)	—
Depreciation	(5,559)	(10,625)
Closing net book value	<u>156,747</u>	<u>160,203</u>

7. Accounts receivable and prepayments

Included in accounts receivables and prepayments are trade receivables and their ageing analysis is as follows:

	Unaudited	Audited
	30th June	31st December
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	31,738	17,722
31 - 60 days	4,275	4,590
61 - 90 days	1,614	775
over 90 days	1,720	—
	<u>39,347</u>	<u>23,087</u>

The majority of the Group's trade receivable is on credit terms of 30 to 60 days.

8. Accounts payable and accruals

Included in accounts payable and accruals are trade payables and their ageing analysis is as follows:

	Unaudited	Audited
	30th June	31st December
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	16,534	4,977
31 - 60 days	102	149
61 - 90 days	—	423
	<u>16,636</u>	<u>5,549</u>



9. Share capital

	Ordinary shares of HK\$0.2 each			
	30th June 2001		31st December 2000	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:				
At the beginning and the end of the period/year	<u>2,000,000,000</u>	<u>400,000</u>	<u>2,000,000,000</u>	<u>400,000</u>
Issued and fully paid:				
At 1st January 2001/2000	1,113,779,705	222,756	1,115,949,405	223,190
Exercise of share options (<i>note (a)</i>)	1,520,000	304	9,646,300	1,929
Exercise of warrants (<i>note (b)</i>)	23,384,000	4,677	—	—
Repurchase of shares (<i>note (c)</i>)	<u>(1,080,000)</u>	<u>(216)</u>	<u>(11,816,000)</u>	<u>(2,363)</u>
At 30th June 2001/ 31st December 2000	<u>1,137,603,705</u>	<u>227,521</u>	<u>1,113,779,705</u>	<u>222,756</u>

Notes:

- (a) Pursuant to a share option scheme adopted on 12th May 1994, the Board of Directors may invite the Executive Directors of the Company and the employees of the Group to take up options to subscribe for the Company's shares. At 30th June 2001, 1,520,000 options were exercised and 61,588,836 options were outstanding which are exercisable at HK\$0.283 to HK\$0.816 per share with expiry dates between 9th February 2005 and 6th December 2009.
- (b) The Company has warrants outstanding entitling the holders to subscribe for new shares at HK\$0.62 per share at any time from the date of issue up to and including 1st August 2001. If the warrants are fully exercised the company will be required to issue a further 220,000,000 shares. During the period, 23,384,000 units of warrants were exercised and 196,616,000 units of warrants were outstanding at 30th June 2001.
- (c) During the period, the Company repurchased 1,080,000 ordinary shares of HK\$0.2 each on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") at an aggregate price of HK\$454,409.



10. Reserves

	Share premium and warrant reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1st January 2000	570,737	18,551	10,171	964	49,582	(2,401)	647,604
Reclassification	—	—	—	(964)	964	—	—
Premium on share options exercised and shares issued	1,415	—	—	—	—	—	1,415
Placement of warrants net of expenses	25,124	—	—	—	—	—	25,124
Repurchase of shares	(2,666)	—	—	—	—	—	(2,666)
Goodwill written off on acquisition of a jointly controlled entity	—	(16,696)	—	—	—	—	(16,696)
Goodwill written off on acquisition of a subsidiary	—	(1,857)	—	—	—	—	(1,857)
Negative goodwill on deemed acquisition of an associated company	—	943	—	—	—	—	943
Reversal of goodwill, previously written off, on disposal of certain interest in an associated company	—	112	—	—	—	—	112
Share of post-acquisition reserves of associated companies and jointly controlled entities	—	537	—	—	—	—	537
Disposal of land and buildings	—	—	—	—	(964)	—	(964)
Transfer from retained profits on repurchase of shares	—	—	2,363	—	—	—	2,363
Exchange differences on translation of the accounts of foreign subsidiaries	—	—	—	—	—	(3,945)	(3,945)
As 31st December 2000	<u>594,610</u>	<u>1,590</u>	<u>12,534</u>	<u>—</u>	<u>49,582</u>	<u>(6,346)</u>	<u>651,970</u>
Company and its subsidiaries	594,610	(11,720)	12,534	—	49,582	(6,346)	638,660
Associated companies	—	13,521	—	—	—	—	13,521
Jointly controlled entities	—	(211)	—	—	—	—	(211)
As 31st December 2000	<u>594,610</u>	<u>1,590</u>	<u>12,534</u>	<u>—</u>	<u>49,582</u>	<u>(6,346)</u>	<u>651,970</u>



10. Reserves (continued)

	Share premium and warrant reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Land and buildings revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2001	594,610	1,590	12,534	49,582	(6,346)	651,970
Premium on share options exercised and shares issued	72	—	—	—	—	72
Repurchase of shares	(239)	—	—	—	—	(239)
Premium on warrants exercised net of expenses	9,788	—	—	—	—	9,788
Reversal of goodwill, previously written off, on disposal of partial interest in subsidiaries	—	1,838	—	—	—	1,838
Reversal of goodwill, previously written off, on disposal of certain interest in a jointly controlled entity	—	43,201	—	—	—	43,201
Share of post-acquisition reserves of associated companies	—	(2,789)	—	—	—	(2,789)
Transfer from retained profits on repurchase of shares	—	—	216	—	—	216
Exchange differences on translation of the accounts of foreign subsidiaries	—	—	—	—	(2,437)	(2,437)
At 30th June 2001	<u>604,231</u>	<u>43,840</u>	<u>12,750</u>	<u>49,582</u>	<u>(8,783)</u>	<u>701,620</u>
Company and its subsidiaries	604,231	(9,882)	12,750	49,582	(8,783)	647,898
Associated companies	—	10,732	—	—	—	10,732
Jointly controlled entities	—	42,990	—	—	—	42,990
At 30th June 2001	<u>604,231</u>	<u>43,840</u>	<u>12,750</u>	<u>49,582</u>	<u>(8,783)</u>	<u>701,620</u>



11. Retained profits

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
At 1st January 2001/2000 as previously reported	103,735	64,428
Effect of adopting SSAP 9 (revised)	16,709	—
	<hr/>	<hr/>
At 1st January 2001/2000 as restated	120,444	64,428
Transfer to reserves	(216)	(2,363)
Profit for the period/year	45,380	58,379
2000 final dividend paid and payable	(16,691)	—
	<hr/>	<hr/>
At 30th June 2001/31st December 2000	148,917	120,444
	<hr/> <hr/>	<hr/> <hr/>
Company and subsidiaries	91,687	87,366
Associated companies	(2,295)	(12,235)
Jointly controlled entities	59,525	45,313
	<hr/>	<hr/>
At 30th June 2001/31st December 2000	148,917	120,444
	<hr/> <hr/>	<hr/> <hr/>

The previously recorded final dividend proposed and declared after the balance sheet date but accrued in the annual accounts for the year ended 31st December 2000 was HK\$16,709,000. Under the Group's new accounting policy as described in note 1(a), this has been written back against opening retained profits as at 1st January 2001 and is now charged in the period in which it was proposed.

12. Contingent liabilities

There is no material change in contingent liabilities since the last annual balance sheet date and up to 30th June 2001.



13. Commitments

(a) Capital commitments

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Contracted but not provided for	—	4,282
Authorised but not contracted	—	1,236
	<u>—</u>	<u>5,518</u>
The Group's share of capital commitments of jointly controlled entities not included in the above is as follows:—		
Contracted but not provided for	<u>7,203</u>	<u>1,615</u>

(b) Commitments under operating leases

At 30th June 2001, the Group had total future aggregate minimum lease payments under non-cancelable operating leases in respect of land and buildings as follows:

	Unaudited 30th June 2001 HK\$'000	Restated 31st December 2000 HK\$'000
Within one year	2,203	551
In the second to fifth year inclusive	<u>1,545</u>	<u>2,992</u>
	<u>3,748</u>	<u>3,543</u>

14. Subsequent events

In July 2001, the Group has disposed of its entire interest in a jointly controlled entity, Kunshan Huadong International Cargo Distribution Services Company Limited, at a cash consideration of approximately HK\$29 million and the expected gain is approximately HK\$6 million.



OPERATION REVIEW

Despite a slowdown in Hong Kong's economy, the Group recorded significant growth in net profits during the six months ended 30th June 2001. Disposal of equity interests in a property development project and BonVision Technology Limited brought in profit contributions of approximately HK\$20 million for the period. The Group will continue to redirect its resources in businesses where our strength lies.

The first half of the financial year witnessed a marked slowdown in the equity capital market activities in Hong Kong. Average daily market turnover declined by 35% to HK\$9.3 billion during the period under review, down from HK\$14.4 billion for the corresponding period last year. The businesses of stockbroking and corporate finance were adversely affected by the weakening investment climate. However, the Group still has been able to expand its business. Operating profit declined due to increase in overheads needed to strengthen the operations' infrastructure in support of future growth.

The Asset Management Division performed well in the period under review. Contributions from securities trading and investments increased by 41% to HK\$11 million during the six months ended 30th June 2001.

Performance of China Assets (Holdings) Limited during the period was satisfactory. Negotiations for the disposal of its existing investments continued to make progress.

In the first half of 2001, Goodbaby Child Products Company Limited ("Goodbaby") recorded a steady growth in both turnover and profit attributable to shareholders. Facing keen competition in Mainland China, Goodbaby has placed more resources to develop the overseas markets. Enjoying the advantage of lower manufacturing cost in China, Goodbaby has successfully expanded its client base in the United States and Europe with high quality products at competitive prices.

The container transportation business carried out by Shanghai Zhong Chuang International Container Storage & Transportation Co. Ltd. ("ZCIC") was affected by the slowdown in growth in container transportation turnover in Shanghai. Its profit increased slightly due to improvements in cost control.



PROSPECTS

The China B share markets were opened to local investors in February 2001 and these markets are expected to grow substantially as more enterprises choose to raise foreign currency funds domestically. Our Financial Services Division seeks to become an active player in both the primary and secondary B share markets. In respect of the Hong Kong operations, the Financial Services Division will embark on futures brokering services in September, so as to provide more comprehensive and well-suited products to match the needs of investors.

After the introduction of two strategic investors, The China Retail Fund, LDC, (a direct investment fund advised by AIG Investment Corporation) and SB China Holdings Pte Ltd. (a subsidiary of Softbank Corporation), Goodbaby is now preparing for listing. The listing status will help Goodbaby to strengthen its leading position in the child products industry.

With China's imminent accession into the World Trade Organization and continued reforms in its key industries, it will offer much business opportunities to investors. It is expected that the Group's corporate finance and assets management businesses would be benefited from the reforms in China's securities market. ZCIC and our other investments in Mainland China will also reap benefits from the rapid growth in China's economy.

The Group, as an energetic listed entity, will make maximum use of stable returns from its existing businesses and grasp new opportunities to acquire high-potential projects, thereby enhancing shareholders' return. With the implementation of the said strategies, we are confident that the ongoing investments in Mainland China will continue to bring success to the Group in the future.



MANAGEMENT DISCUSSION AND ANALYSIS

Results

Profit attributable to shareholders for the six months ended 30th June 2001 was HK\$45 million, an increase of 57% over the same period in 2000. Basic earnings per share increased to HK4.1 cents, up 58%.

Turnover of the Group for the period under review increased by 19% to HK\$183 million as compared to HK\$154 million for the same period of last year.

Disposal of interests in subsidiaries and a jointly controlled entity

In March 2001, the Group disposed of its entire interest in a jointly controlled entity at a consideration of HK\$67 million and the gain on this disposal amounted to approximately HK\$10 million. The jointly controlled entity owns a property development project in Beijing.

In April 2001, the Group's controlling interest in BonVision Technology Limited was sold at a consideration of HK\$20 million and the gain on this disposal amounted to approximately HK\$10 million.

Liquidity and financial resources

The Group relied principally on its internal resources to fund its operation and investment activities. As at 30th June 2001, the Group has a strong financial position with approximately HK\$260 million cash reserves and a gearing ratio (total liabilities excluding minority interest to shareholders' funds) of 7%. Investment in marketable securities as at 30th June 2001 amounted to approximately HK\$60 million.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi.



Employees

As at 30th June 2001, the Group employed 489 staff (30th June 2000: 450), of which 428 are located in the Chinese Mainland. Employee remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee shares option scheme. Training courses are provided to staff where necessary.

Pledge of assets

Certain properties of the Group with an aggregate net book value of approximately HK\$94 million as at 30th June 2001 (31st December 2000: HK\$96 million) as well as fixed deposits of HK\$13 million (31st December 2000: HK\$13 million) were pledged as securities against bank loans and general banking facilities amounting to HK\$118 million (31st December 2000: HK\$93 million) granted to the Group. At 30th June 2001, HK\$10 million (31st December 2000: Nil) of the bank overdraft facilities was utilized.

Contingent liabilities

The Company together with other parties has provided corporate guarantees to a jointly controlled entity for bank loans to the maximum extent of HK\$70 million (31st December 2000: HK\$70 million).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (2000: Nil).



DIRECTORS' INTEREST IN SECURITIES

At 30th June 2001, the interests of the directors in the shares and warrants of the Company or any of associated corporations within the meaning of Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) as recorded in the register maintained by the Company under Section 29 of SDI Ordinance or as notified to the Company are as follows:—

Name of directors	Number of ordinary shares			Number of warrants
	Personal interests	Family interests	Corporate interests	Corporate interests
Mr. Lao Yuan-Yi	42,008,000	—	75,308,000	21,984,000
Mr. Xin Shulin, Steve	2,000,000	—	—	—
Prof. Woo Chia-Wei	—	72,000	—	—

Saved as disclosed above, none of the directors had any interests in the shares and warrants of the Company or any of its associated corporations as defined in the SDI Ordinance as at 30th June 2001.



DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At 30th June 2001, the following directors of the Company held the following share options of the Company as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

Name of directors	Date granted	Number of ordinary shares granted under the option
Mr. Lao Yuan-Yi	26th September 1995 - 1st November 1997	22,842,000
Mr. Yeung Wai-Kin	26th January 1995 - 8th July 1998	13,375,864
Mr. Xin Shulin, Steve	26th January 1995 - 8th July 1998	10,337,620
Mr. Hu Yi-Ming	1st November 1997 - 8th July 1998	3,300,000

These represent the options granted in previous years which have not been exercised as at 30th June 2001, and are exercisable at HK\$0.283 to HK\$0.816 per share with expiry dates between 7th October 2005 and 15th July 2008. During the six months ended 30th June 2001, Mr. Yeung Wai-Kin exercised 520,000 share options to subscribe for the shares of the Company at the price of HK\$0.283 per share.

Save as disclosed above, none of the directors as at 30th June 2001 had any interest in securities of the Company or any of its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Section 28 of SDI Ordinance or which was required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").



SUBSTANTIAL SHAREHOLDERS

At 30th June 2001, the following parties had or were deemed to have interests in the equity securities of the Company as recorded in the register kept under Section 16(1) of the SDI Ordinance:

Name of shareholders	Number of ordinary shares in the Company
China Assets (Holdings) Limited (“China Assets”)	230,240,000
Mr. Lao Yuan-Yi	117,316,000

The Group conversely holds 25,162,866 shares of China Assets, representing 33.82% equity interests in its issued share capital. Hence, China Assets is also an associated company of the Group.

Apart from the above, so far as the directors are aware, there are no parties which were, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital of the Company as at 30th June 2001.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30th June 2001, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid
		Highest	Lowest	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
January 2001	496,000	0.445	0.435	220,901
February 2001	584,000	0.400	0.395	233,508
	<u>1,080,000</u>			<u>454,409</u>



The above shares were cancelled upon repurchases and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. An amount of HK\$216,000 equivalent to the nominal value of the cancelled shares was transferred to the capital redemption reserve. The remaining portion of premium and brokerage expenses payable on the repurchases was charged against the share premium account.

Apart from the repurchases of shares as disclosed above, the Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on the Stock Exchange during the six months ended 30th June 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited interim accounts for the six months ended 30th June 2001 approved by the directors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period, except that the independent non-executive directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

By order of the Board

LAO Yuan Yi

Chairman and Managing Director

Hong Kong, 4th September 2001

